

AUDIT & GOVERNANCE COMMITTEE

28 September 2017 at 9.30 am

Present: - Councillors Chapman, (Chairman), Mrs Oakley, (Vice-Chairman), Blampied, Brooks, Cates, Maconachie and Mrs Porter.

Councillor Haymes was also present during the meeting.

[Note: Councillor Brooks was absent from the meeting during consideration of the matters referred to in Minute 199 to 203 (Part) and Minute 206 (Part) to Minute 210].

199. WELCOME

The Chairman, in welcoming the Audit Manager and Team Leader from Ernst & Young and Officers from the Internal Audit & Finance teams to the meeting, noted apologies received from Paul King, Audit Director, from Ernst & Young.

200. APOLOGIES FOR ABSENCE

Apologies for absence had been received from Councillors Purchase and Wheal.

201. DECLARATIONS OF INTEREST

The Monitoring Officer has advised Members of interim arrangements to follow when making declarations of interest. They have been advised that for the reasons explained below, they should make their declarations on the same basis as the former Code of Conduct using the descriptions of Personal and Prejudicial Interests.

Reasons

- The Council has adopted the Government's example for a new local code of conduct, but new policies and procedures relating to the new local code are yet to be considered and adopted.
- Members have not yet been trained on the provisions on the new local code of conduct.
- The definition of Pecuniary Interests is narrower than the definition of Prejudicial Interests, so by declaring a matter as a Prejudicial Interest, that will cover the requirement to declare a Pecuniary Interest in the same matter.

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Where a member declares a “Prejudicial Interest”, this will, in the interests of clarity for the public, be recorded in the minutes as a Prejudicial and Pecuniary Interest.

There were no Declarations of Interest made.

202. MINUTES

The Minutes of the meeting of the Committee held on 29 June 2017 and the Special Meeting of the Committee held on 7 August 2017 were approved by the Committee as a correct record and were signed by the Chairman.

203. ERNST & YOUNG – REPORT TO THOSE CHARGED WITH GOVERNANCE, PROGRESS REPORT AND SECTOR UPDATE

The Committee received Ernst & Young’s Audit Results report for the year ended 31 March 2017, which had been circulated separately to the agenda.

Before inviting the Audit Manager to present his report, the Chairman stated that he wished the Committee to first work through the Audit Committee Briefing [Sector] report as this covered some interesting issues that he felt Members should be aware of.

The Chairman firstly alerted Members to the update provided on the WannaCry Ransomware Attack which had affected many sectors including healthcare, government and telecommunications, spreading to over 300,000 systems in over 150 countries. The Chairman sought reassurance that the Council’s systems were fully up to date and he asked that the important item of Business Continuity be considered at a future meeting of the Committee.

Secondly, the Chairman referred to the section of the update titled “Use of Housing Companies” and especially in relation to the need for Councils to prioritise building new homes at social rent levels. This would be something that the Committee would need to keep an eye on as the Local Property Company project and the resolutions from Full Council on 13 September 2017 moved forward.

Finally, the Chairman alerted Members to the key questions listed for Audit Committees and stated that this Committee needed to be satisfied that the Council could positively respond to each of the questions asked.

The Committee then noted the Audit Committee [Sector] Update report and then turned its attention to the Ernst & Young's Audit report, which had been circulated separately to the agenda.

The Audit Manager confirmed that the National Audit Office (NAO) Code of Audit Practice (the Code) required the Council's external auditors to report to 'those charged with governance' on the work that had been undertaken to discharge their statutory responsibilities, together with any governance issues identified. This report summarised the findings from the 2016/2017 audit and that it included the messages arising from Ernst & Young's audit of the Council's financial statements and the result of the work they had undertaken to assess the Council's arrangements to secure value for money in its use of resources.

Before providing a summary of Ernst & Young's report, the Audit Manager confirmed that after the Statement of Accounts had been despatched, it had been necessary to make one late but significant adjustment to the Property Plan and Equipment part of the audit. It was explained that in 2016/17 the Council's Leisure Centres had been valued as part of the normal valuation programme by qualified valuers. An adjustment was then made to the value by the valuer to reflect the passing of use of these properties to the new Leisure Operator, Freedom Leisure, and also deferring the benefit of owning these assets to the Council. This resulted in changes being made to reverse the effect of this adjustment which had resulted in the in the Property Plan and Equipment value of £5.02m being added. As this would impact a number of areas within the accounts, the Audit Manager stated that the Financial Services Manager would highlight these to Members when she presented the Statement of Accounts for 2016/17. The Audit Manager stated that he wished to have placed on record his thanks to the Finance Team for accommodating this significant last minute adjustment.

The Audit Manager reported that following completion of the work outlined in their Audit Plan, it was proposed that an unqualified opinion on the Council's financial statements would be issued. The audit report set out the main findings relating to the areas of risk and it reported on any exception on the governance statement or other information included.

The significant findings for the audit of the Council's financial statements related to the areas that had been listed in Ernst & Young's Audit Plan and as reported to the previous meeting of the Committee. The Audit Manager reported that this year's audit had not identified any major risk in respect of management override.

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Ernst & Young was pleased to be able to report that there were no significant deficiencies in internal control that needed to be brought to the Committee's attention.

Looking at the section headed Economy, Efficiency and Effectiveness, it was explained to the Committee that this covered how the Council had ensured proper arrangements for securing financial resilience and whether the Council was prioritising its resources within tighter budgets. This included looking ahead to the medium-term. The results had been set out within the report showing that the overall conclusion findings did not preclude Ernst & Young from issuing an unqualified conclusion.

The final section of the report detailed independence and audit fees and the Audit Manager confirmed that Ernst & Young did not need to make any changes to those advised in its Audit Plan dated June 2017. The audit fee for 2016/2017 was in line with the agreed fee as no variations had been needed to be made to the report.

The Chairman thanked the Audit Manager for his presentation and then invited questions from the Committee.

Looking at the Value for Money section of the report, a question was asked about the pressures being put onto the Council's finances and particularly in view of new initiatives such as the Local Property Company and regeneration schemes. Councillor Brooks stated that in asking this question he sought reassurance that the Council would still have some leeway in terms of the non-financial 'value' of, for example, tourism and community wellbeing and that the Council should accept that not every project needed to make a profit. It was Councillor Brook's view that this feeling should be applied to approving any future regeneration schemes for Bognor Regis. The Audit Manager responded stating that the external audit would take a holistic view in looking at value for money which would allow the Council to also consider the benefits to residents which would not just be in monetary terms.

Councillor Mrs Oakley alerted the Committee to Appendix B of the report which stated that the Council needed to confirm that there were no changes in Ernst & Young's assessment of independence since the confirmation in their Audit Plan of 23 February 2017. The Chairman agreed that the Committee needed to make this a formal confirmation within its minutes and so it

RESOLVED

That it be confirmed that there were no changes in Ernst & Young's assessment of their independence since the confirmation of their audit plan of 23 February 2017.

The Committee was then asked to note the report and it was confirmed that this would occur as part of the next agenda item.

204. ANNUAL STATEMENT OF ACCOUNTS – 2016/2017 AND LETTER OF REPRESENTATION

The Committee received a report from the Council's Financial Services Manager providing information about the audit of the Council's 2016/2017 Statement of Accounts, this report had been circulated separately to the agenda.

Before working through the Statement of Accounts, the Financial Services Manager referred to the last minute audit change as had been explained by the Audit Manager as part of the previous item. As this had been a significant last minute adjustment, the work involved had demonstrated how well the finance team had worked in accommodating the required changes needed to be made to the Statement of Accounts. The required changes made were then explained to the Committee and it was confirmed that a revised Statement of Accounts would be uploaded to the Council's web pages by tomorrow.

The relevant adjustments on the Primary Statements were explained as follows:

- Comprehensive Income and Expenditure Statement - Leisure and amenities gross expenditure decreased by £634k – this reversed the original revaluation loss made on the Littlehampton Swimming Centre
- On the Balance Sheet – Other Land and Buildings needed to increase by £5.002 m to reflect the reversal of the valuation adjustment
- On the Balance Sheet – Revaluation reserve increases £4.368 m to reflect the £5.002 m increase in valuation (adjusted for the reversal of the previous revaluation loss taken to the capital adjustment account - £634k plus £4.368 m = £5.002m).
- Capital Adjustment Account needed to increase by £635k to reflect the reversal of the revaluation loss which was previously taken to service

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- Movement in Reserves – 2016-17 – total cumulative income and expenditure needed to increase by £634k reversal of revaluation loss (Leisure and Amenities)
- Adjustments between accounting basis and funding basis under regulation needed to be reduced by £634k reversal of the above.

The Financial Services Manager stressed to the Committee that the changes only affected unusable reserves which, by definition, could not be utilised for service provision and that the usable reserves, like the General Fund and HRA balance, were not affected by the changes.

The Financial Services Manager then introduced the remaining contents of the Annual Statement of Accounts for 2016/2017 and informed the Committee that in line with the previous agenda item (the Audit Results report) which the Committee had just considered, it was good news in that no further material changes [other than what had been reported above] had been required. It was also confirmed that there had been no changes to the Accounting Policies applied to the Statement of Accounts approved by the Committee at its meeting held on 30 June 2017. Therefore, the final audited accounts, together with the Letter of Representation could be signed by the Chairman of the Committee and published by the required deadline of 30 September 2017.

The Committee was reminded that it was also being asked to approve the Letter of Representation on behalf of the Council which had been attached to the covering report as Appendix 1. If approved, the Chairman of the Committee would also be asked to sign this document.

Having received the Financial Statements, the following questions were asked:

- On the Comprehensive Income and Expenditure Statement – Re-measurement of the net defined benefit liability (asset) – why was there a decrease in this asset? It was explained that this was due to the Pension Fund and the way it was valued.
- Notes to the Accounts – Short-term Debtors - Customers and Clients – Could the increase from 2016 to 2017 be explained. The Financial Services Manager confirmed that a response would be sent in writing.

Having worked through the Statement of Accounts, and having received some further comments, the Chairman asked the Committee if it felt that it would be of benefit for them to receive a tutorial on how local government funding actually worked. As this was seen to be of benefit, the Group Head of Corporate Support and his team were asked to put some thought into how this could be provided.

The Chairman then thanked the whole finance team for their work and the Committee then

RESOLVED – That

- (1) The findings of Ernst & Young in their Audit Results report (the previous agenda item) be noted;
- (2) The Letter of Representation on behalf of the Council be approved and signed by the Chairman of the Committee; and
- (3) The Statement of Accounts for the financial year ended 31 March 2017, which will also be signed by the Chairman of the Committee, be approved.

205. CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

The Committee received and noted a verbal update from the Chief Internal Auditor confirming that, as a result of the national commissioning exercise advised at previous meetings of the Committee, it was proposed that Ernst & Young would be appointed as External Auditors for the next 5 years.

As part of the consultation being undertaken on this appointment, which would run until 22 September 2017, the Council had advised that it had no concerns or objections to this appointment. The final appointment would be confirmed by the end of December 2017.

206. TREASURY MANAGEMENT – QUARTER 1 REPORT – 2016/2017

The Senior Accountant/Treasury & Investment Officer presented the Quarter 1 Treasury Management Report for 2016/2017 to the Committee for it to scrutinise prior to making the proposed recommendations to Full Council.

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The Committee's attention was drawn to Section 3 of the report (Interest Rate Forecast) where the Council's Treasury Advisor, Capita Asset Services, had provided its most recent forecasting estimating that the bank rate would not be increased until June 2019. The Senior Accountant/Treasury & Investment Officer outlined that as a result of more recent forecasts being made, it was now likely that a rise in interest rates could be expected as soon as November 2017 to around February 2018.

Looking at the Annual Investment Strategy this showed that investment performance for the quarter ended 30 June 2017 illustrated that interest earned had been £164,860 showing a performance of 1.12% against a budget for the year of 1.02%.

It was outlined that following approval of the Treasury Management Strategy Statement for 2017/18 by Full Council on 8 March 2017, which included the Annual Investment Strategy, an amendment needed to be made. This was because in this Strategy, the Council had determined that it would only use approved counterparties from countries with a minimum sovereign credit rating of AA from Fitch (or equivalent). This had now been amended to AA- along with the Council's treasury management advisors to allow investment with Qatar National Bank to continue. The list of countries that qualified using this amended credit criteria had been set out within Appendix 4 of the report. The Committee was required to approve this amendment.

The final observation brought to the Committee's attention was that from January 2018 counterparties would be downgrading the Council's status to retail meaning that the Council would have to opt up to obtain professional status.

Having congratulated staff in achieving such good returns on its investments, the Committee

RECOMMEND TO FULL COUNCIL – That

- (1) the treasury management report for 2017/2018 be noted;
- (2) the actual prudential and treasury indicators for 2017/2018 contained in the report be approved;
- (3) the amendment to the 2017/18 treasury management strategy (Appendix 4) be approved;

(4) the treasury activity for the quarter ended 30 June 2017, generating interest receipts of £164,860 (1.12%) against a budget for the year of £530,000 (1.02%) be noted; and

(5) interest receipts generated to the end of August 2016 of £281,040 (1.18%) be noted.

207. GOVERNANCE AND RISK GROUP

The Chief Internal Auditor outlined that at the request of the Chairman and Vice-Chairman of the Committee, he would update the Committee on the workings of the Governance and Risk Group. This informed Members that:

- The Group consisted of a group of Officers from various Directorates and was chaired by the Director of Place. It had last met in June 2017 to look at its work programme and membership.
- Following the management restructuring, the Group had considered its existing membership and terms of reference which had been considered to be appropriate. However, it was agreed to realign meeting schedules to fit in and around meetings of this Committee, who's meeting dates would need to be agreed for 2018 onwards to align with the requirements for faster closedown of the Accounts.
- There had been limited activity during the last year allowing for the need for the management restructure to bed down
- During this period, the Group had not met since September 2016 when it had updated the Strategic Risk Register.
- The Group had considered the latest Sector Update and the Council's risk strategy and appetite in line with the new management structure. The Chief Executive was now the Group's Lead Officer and he had looked at and agreed the risk strategy and appetite and had confirmed that this could remain as it was subject to some minor changes in job titles as a result of the management restructure. The minor changes made by the Group would be reported to this Committee at its next meeting in December 2017.
- The Group had examined the Council's Strategic Risk Register and a further meeting was planned for October to include any comments from the new Strategic Management Team, after which it would be reported to the next meeting of the Committee.
- Operational risk registers would be reviewed by services overseen by the Governance and Risk Group.

- The Group would consider other items such as business continuity plans as part of its work programme. The Group Head of Neighbourhood Services was taking advice from the Council’s Insurers; Zurich as now the new structure was in place, all areas would need to update business impact assessments to feed into a bigger plan and an assessment of requirements.

The Committee noted the content of the verbal update provided.

208. REVISED ANNUAL INTERNAL AUDIT PLAN AND PROGRESS AGAINST THE AUDIT PLAN

With the agreement of the Committee, the Chief Internal Auditor proposed that it consider Agenda Items 10 and 11 together.

The Chief Internal Auditor reminded Members that each year, the Internal Audit service was required to develop an annual audit plan for the following financial year, which would then be agreed by the Committee.

An outline plan for 2017/2018 had been presented to the Committee in February 2017 and Members at that time had been advised that a further report would be brought before them later in the year should there be a requirement for significant change to be made to the Plan.

Since February 2017 changes had occurred that needed to be reported in terms of presenting a revised Internal Audit Plan for 2017/2018.

The Chief Internal Auditor outlined the following points for the Committee to note:

- Firstly, there had been a further reduction in the current resource of the section to 2 full time equivalents (FTEs). This meant that a revised plan based on the resource was now available for the rest of the year had been prepared.
- Due to the changes in staffing there had been a reduction of approximately 42 audit days from the previous Plan. At the present time, whilst the Council’s restructure was still to be finalised. It was advised that the priority work could be sustained but longer-term a more detailed look at staffing within the team would need to be considered.

The Chairman agreed now that the shared services project was not proceeding, the Committee would need to keep a close eye on the longer term maintenance of the internal audit function within Arun and the issue of staff capacity. The Council had undertaken a huge restructure and the fall out of this had not properly hit the ground as yet. Within the Committee’s remit the Chairman outlined that it had part responsibility for procurement and risk and so it needed to start formulating views now and required reassurance by the Internal Audit team that it was able to cope with the mandatory and most important items within the Plan.

The Committee then looked at the delivery of progress made against the annual Audit Plan. A supplementary status report was also provided on a number of project areas and on areas that Internal Audit kept under review.

Following a brief discussion, the Committee then noted the contents of the revised Outline Internal Audit Plan for 2017/18 and the progress made against the Audit Plan.

210. SUMMARY OF FINDINGS FROM REPORTS ISSUED – MAY TO SEPTEMBER 2017

The Committee received and noted the summary of findings from audit reports issued May to September 2017.

211. SPECIAL MEETING OF THE AUDIT & GOVERNANCE COMMITTEE – 7 AUGUST 2017

The Chairman presented this item and asked the Committee if it had any observations that it wished to make following its Special meeting held on the Local Property Company and what had been resolved by Full Council on 13 September 2017.

The Chairman raised the issue of the draft Shareholder Agreement which had been circulated to all Members of the Council prior to the Full Council meeting. Although this had been circulated, the Committee had not reviewed the risks associated with that agreement and it was felt that it had not established whether Members had to be individually names as shareholders and what responsibilities this might entail.

Following some discussion, it was noted that the Chairman of the Committee would discuss any concerns held with the Shareholder Agreement with Councillor Tyler as a Member on the Board of Trisanto, the name of the company set up to operate this project.

(The meeting concluded at 11.09 am.)